

UNITED STATES DISTRICT COURT
WESTERN DISTRICT OF WASHINGTON
AT SEATTLE

DIGEO, INC.,

Plaintiff,

v.

AUDIBLE, INC.,

Defendant.

CASE NO. C05-464JLR

ORDER

I. INTRODUCTION

This matter comes before the court on the motion of Edward and Oliver Chang to intervene (Dkt. # 87), and a motion from Plaintiff Digeo, Inc. (“Digeo”) to voluntarily dismiss this action (Dkt. # 85). Digeo has not requested oral argument on either motion. Defendant Audible, Inc. (“Audible”) and the Changs have requested oral argument on the motion to dismiss. The court has reviewed the parties’ briefing and supporting materials, including the supplemental briefing that the court ordered in August 2006, and finds both motions suitable for disposition without oral argument. For the reasons stated below, the court GRANTS Digeo’s motion for voluntary dismissal, DENIES the Changs motion to intervene, and directs the clerk to enter judgment in this action.

II. BACKGROUND

In its August 24, 2006 order, the court granted summary judgment against Digeo's claim that Audible had infringed United States Patent No. 5,734,823 (the "'823 Patent"). The court incorporates that order's detailed discussion of the unusual circumstances that led the court to grant summary judgment. In summary, the court dismissed Digeo's Patent Act claims because conclusive evidence showed that Edward Chang, a co-inventor of the '823 Patent, never assigned his interest in the patent to the company from which Digeo purchased it. Without sole legal title to the patent, Digeo could not maintain a suit under the Patent Act. The court held, however, that Digeo could seek equitable remedies if it could show that it had equitable title to the patent. Because it was not necessary, the court did not decide whether Oliver Chang (who is Edward's brother and also a co-inventor of the patent) is a co-owner of the '823 Patent. The court also did not rule on the validity of licenses that the Changs issued to Audible.

When the court entered its order, Digeo, Audible, and the Changs were embroiled in a dispute in the United States Bankruptcy Court for the Eastern District of Missouri. In 2002, with the Bankruptcy Court's approval, Digeo purchased the '823 Patent from IPDN Corporation, the successor to Microtome, Inc. ("Microtome"). The Changs and the two other co-inventors of the '823 Patent worked for Microtome in the early 1990s. In July 2006, Digeo reopened the bankruptcy case, then filed an adversary proceeding against the Changs and others to establish its sole ownership of the '823 Patent. Digeo claimed, among other things, that the Changs had a duty to assign their interests in the patent to Microtome, and now owed the same duty to Digeo. On September 28, 2006, the Bankruptcy Court dismissed the adversary proceeding for lack of subject matter jurisdiction.

1 On October 18, 2006, Digeo moved pursuant to Fed. R. Civ. P. 41(a)(2) to
2 voluntarily dismiss this action. Digeo requested that the court dismiss its infringement
3 claim with prejudice, and dismiss Audible's declaratory judgment counterclaim without
4 prejudice. The counterclaim seeks a declaration that the '823 Patent is invalid and
5 unenforceable, but raises no concerns over Digeo's ownership of the patent.
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7 On October 19, 2006, the Changs filed their motion to intervene. They requested
8 leave to assert a cross-claim for declaratory judgment that they are not obliged to convey
9 their rights in the '823 Patent to Digeo, that their license to Audible is valid, and that
10 Digeo has no authority to pursue this action without their consent.

11 III. ANALYSIS

12 A. Digeo's Motion for Voluntary Dismissal

13 The court begins with Digeo's motion for voluntary dismissal under Fed. R. Civ.
14 P. 41(a)(2). The decision to grant or deny a motion for voluntary dismissal is
15 discretionary. Smith v. Lenches, 263 F.3d 972, 975 (9th Cir. 2001). The court should
16 grant a motion for voluntary dismissal "unless a defendant can show that it will suffer
17 some plain legal prejudice as a result." Id. Uncertainty over an unresolved dispute, the
18 threat of future litigation, and the inconvenience of having to pursue a dispute in a
19 different forum are not plain legal prejudice. Id. at 976. To ameliorate potential
20 prejudice to the defendant, a court is permitted to condition the voluntary dismissal
21 "upon such terms and conditions as the court deems proper." Fed. R. Civ. P. 41(a)(2).
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23 Digeo has agreed to conditions to cure any plain legal prejudice Audible might
24 suffer. It has agreed to dismiss its infringement claims with prejudice. Moreover, it has
25 agreed not to assert the '823 Patent against Audible, Audible's customers, and Audible's
26 successors, based on any products or services that Audible has manufactured, offered, or
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1 is currently manufacturing or offering.¹ Digeo is willing to accept dismissal of
2 Audible's declaratory judgment counterclaim without prejudice.

3 Audible protests that it will suffer prejudice because Digeo can still attempt to
4 enforce the '823 Patent against Audible if it develops new infringing products. Even if
5 this were prejudice, it is not prejudice that this court can cure by denying Digeo's
6 motion for voluntary dismissal. The prejudice arises not from dismissing Digeo's
7 infringement claim, but rather from dismissing Audible's counterclaim for declaratory
8 judgment. This court cannot entertain that counterclaim, however, based merely on
9 Audible's fear that Digeo will sue it for products that it has not yet developed. A
10 justiciable declaratory judgment action requires that a "putative infringer's *present*
11 activity places it at risk of infringement liability." Super Sack Mfg. Corp. v. Chase
12 Packaging Corp., 57 F.3d 1054, 1059 (Fed. Cir. 1995) (internal citation and quotation
13 omitted). Without some evidence of current activity that places it at risk, no court,
14 including this one, can hear Audible's declaratory judgment counterclaim. Id. at 1060
15 ("The residual possibility of a future infringement suit . . . is simply too speculative a
16 basis for jurisdiction . . .").
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19 The court grants Digeo's motion for voluntary dismissal, subject to the conditions
20 listed above.

21 **B. The Changs' Motion to Intervene**

22 Because the voluntary dismissal will not prejudice the Changs, the court denies
23 their motion to intervene in this action. A court must permit intervention "of [r]ight"
24 when the prospective intervenor "claims an interest relating to the property . . . which is
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27 ¹Although there is no evidence that Digeo has formally entered a covenant not to sue
28 Audible, the court notes that Digeo is bound by its representations in its briefing that it will not
sue Audible, its customers, or its successors. Super Sack Mfg. Corp. v. Chase Packaging Corp.,
57 F.3d 1054, 1059 (Fed. Cir. 1995).

1 the subject of the action” and “is so situated that the disposition of the action may as a
2 practical matter impair or impede the applicant’s ability to protect that interest”
3 Fed. R. Civ. P. 24(a). The dismissal with prejudice of Digeo’s claims cures any
4 prejudice to the Changs in two ways. First, the dismissal necessarily means that Digeo
5 cannot enforce the ‘823 Patent against Audible in disregard of the Changs’ ownership
6 rights or their license to Audible. Second, the dismissal of Digeo’s claims with
7 prejudice ensures that the court’s prior rulings, including the ruling that Edward Chang
8 is a co-owner of the ‘823 Patent, operate as an adjudication on the merits. See Semtek
9 Int’l Inc. v. Lockheed Martin Corp., 531 U.S. 497, 505 (2001). Therefore, should the
10 Changs wish to pursue their claim against Digeo that they retain their ownership rights
11 in the ‘823 Patent, they are free to do so despite the voluntary dismissal.²

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13 For the same reasons, the court declines to allow the Changs to intervene under
14 the “permissive intervention” provision of Fed. R. Civ. P. 24(b).

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16 **C. Digeo’s Request for Attorneys’ Fees under 35 U.S.C. § 285**

17 Finally, the court turns to Audible’s request that the court award it attorneys’ fees
18 under 35 U.S.C. § 285 (“§ 285”), which gives the court discretion to award fees to a
19 “prevailing party” in “exceptional cases.” The court retains jurisdiction to consider a
20 request under § 285 after entering a voluntary dismissal. Highway Equip. Co., Inc. v.
21 FECO Ltd., __ F.3d __, 2006 U.S. App. LEXIS 28740, at *7, *11-12 (Fed. Cir. Nov. 21,
22 2006). An accused infringer who obtains a covenant not to sue as a condition of a
23 voluntary dismissal is a “prevailing party” under § 285. Id. at *20-21.

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²Digeo, Audible, and the Changs exchange allegations of “forum shopping.” The court
27 notes that should the Changs wish to pursue their claims to partial ownership of the ‘823 Patent
28 in this forum, the voluntary dismissal will not prevent them from doing so. Audible’s apparent
belief that this court is better suited than another court to resolve Digeo’s largely undeveloped
claim that the Changs owe a duty to assign their interests in the ‘832 Patent is mistaken.

1 Considering a request for fees under § 285 is a two-step process. First, the court
2 must determine whether the prevailing party has shown by “clear and convincing
3 evidence” that the case is “exceptional.” Cybor Corp. v. FAS Techs., 138 F.3d 1448,
4 1460 (Fed Cir. 1998). If the court finds the case “exceptional,” then it must exercise its
5 discretion to “determine whether attorney fees are appropriate.” Id.; see also Reactive
6 Metals & Alloys Corp. v. ESM, Inc., 769 F.2d 1578, 1582 (Fed. Cir. 1985) (“A finding
7 of such ‘exceptional’ circumstances does not, however, mandate an award of attorney
8 fees.”).

10 Here, Audible alleges that this case is exceptional because Digeo sued without
11 having complete ownership over the ‘823 Patent. If an accused infringer shows by clear
12 and convincing evidence that the patentee brought a baseless or frivolous suit, a court
13 can deem the case exceptional. Forest Labs., Inc. v. Abbott Labs., 339 F.3d 1324, 1329-
14 30 (Fed. Cir. 2003). For example, if Digeo had known about the forged assignment that
15 deprived it of complete ownership of the ‘823 Patent, but sued Audible nonetheless,
16 there is no question that this would be an exceptional case. See Eltech Sys. Corp. v.
17 PPG Indus., Inc., 903 F.2d 805, 810 (Fed. Cir. 1990) (affirming award under § 285
18 where district court’s findings were “compatible with and only with th[e] view” that the
19 plaintiff “knew its suit was baseless”). In this case, however, there is no evidence
20 supporting the assertion that Digeo *knew* of the forged assignment. The court noted as
21 much in its prior order, when it cautioned Audible to refrain from making unsupported
22 allegations of “fraud” against Digeo. At most, Audible claims that this case is
23 exceptional because Digeo *should have known* about the ‘823 Patent’s faulty chain of
24 title.
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27 On the record before the court, Audible falls well short of proving by clear and
28 convincing evidence that Digeo should have known that it did not have full title to the

1 '823 Patent. Audible argues, for example, that the lack of an assignment in the file
2 history of the '823 Patent should have alerted Digeo to potential problems with its title.
3 There is no evidence or argument, however, suggesting that one should expect to find an
4 actual assignment document in the file history. As the court explained in its prior order,
5 the file history shows that just before the patent issued, Microtome indicated that it was
6 the sole assignee of every inventor's rights in the Patent. In 2002, when Microtome's
7 successor entity prepared to sell the company's assets in bankruptcy, someone recorded
8 the assignment documents with the PTO. The assignments themselves bore dates prior
9 to the issuance of the '823 Patent.³ At most, this suggests sloppy paperwork, not a
10 defective title. Audible also notes that at some point before the '823 Patent issued, the
11 Changs signed documents stating that they had no obligation to assign their patent rights.
12 While this is certainly evidence that they had no obligation at the time they signed the
13 documents, it is not inconsistent with a decision to assign their interests at a later time.
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15 Audible ignores that Digeo purchased a patent that, by all appearances, had been
16 assigned to Microtome. The '823 Patent itself, the assignments recorded with the PTO,
17 and the file history of the patent are all consistent with this premise. Audible fails to
18 provide a compelling answer to the following question: why would Digeo, or anyone
19 else unaware of the forged documents, have suspected that Microtome was not the sole
20 owner of the '823 Patent? If, as Audible suggests, Digeo should have discovered the
21 defect in its title through the exercise of ordinary diligence, it is curious that no one else
22 discovered the defect. The record reveals that Digeo has sued other parties for
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26 ³Audible's assertion that Digeo's discovery responses show that it did not rely on the
27 assignment documents in assessing the ownership of the '823 Patent is meritless. Digeo
28 reasonably interpreted the discovery request at issue to request information about Digeo's
efforts to license or assign the '823 Patent, not information about assignments that occurred
before Digeo purchased the patent.

1 infringing the '823 Patent and obtained settlements of those suits. The record reveals
2 that Audible litigated this action for more than a year without discovering that someone
3 had forged Edward Chang's assignment of his interest. Surely the parties that Digeo has
4 accused of infringement, all of whom are sophisticated enterprises represented by
5 competent patent counsel, have at least as much incentive as Digeo to discover the
6 forgery at issue. Yet no one discovered Digeo's defective title until Audible did. While
7 Audible insists that "ordinary diligence" would have revealed the forgery, Audible offers
8 no evidence of what *it* did to discover the forgery. This suggests that Audible
9 discovered the defects through extraordinary diligence.
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11 Audible seeks additional discovery to obtain the clear and convincing evidence it
12 needs to prove that this case is exceptional. Neither Audible nor Digeo cites authority
13 relevant to whether it is appropriate to permit such discovery after the case has been
14 dismissed. The court is unaware of any court of appeals that has addressed the issue,
15 but several district courts have considered it. In Aventis Cropscience, N.V. v. Pioneer
16 Hi-Bred Int'l, Inc., 294 F. Supp. 2d 739, 741 (M.D.N.C. 2003), the court entered
17 judgment in the accused infringer's favor, then considered whether to permit additional
18 discovery on the "exceptional" nature of the case. The court noted that § 285 is an
19 expression of Congress's view that attorneys' fees litigation should occur only in "rare
20 or unusual circumstances." Id. at 743. It thus sought to confine discovery "so as not to
21 allow fee litigation to be the tail that wags the dog." Id. at 743-44. The court chose to
22 balance the party's discovery request against the resources that the court and parties
23 would expend if the court permitted discovery, keeping in mind that such discovery is
24 "strongly disfavored and normally prohibited." Id. at 744. Ultimately, the Aventis
25 court, like several others, declined to allow additional discovery. Id. at 746; see also
26 Get-A-Grip, II, Inc. v. Hornell Brewing Co., No. 99-1332, 2002 U.S. Dist. LEXIS 2589,
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1 at *12-13 (E.D. Pa. Feb. 15, 2002) (denying additional discovery, noting that “a request
2 for additional discovery requires more than a showing of what the party hopes it might
3 gain”); Matsushita Battery Indus. Co. v. Energy Conversion Devices, Inc., No.
4 96-101-SLR, 1997 U.S. Dist. LEXIS 21016, at *24 n.9 (D. Del. Dec. 23, 1997) (denying
5 additional discovery where party failed to make a prima facie showing of an exceptional
6 case). The court is aware of no other court that has permitted discovery into § 285
7 allegations after the dismissal of an infringement suit.
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9 The court declines to permit Audible to engage in further discovery. The burden
10 on Audible to prove that this case is “exceptional” is a heavy one. This is so not merely
11 because it would have to adduce clear and convincing evidence that Digeo should not
12 have brought this suit, but because the court would not exercise its discretion to award
13 fees unless Audible proved something more than negligence on Audible’s behalf.⁴ In
14 every patent case, the prevailing party will, with the benefit of hindsight, be able to
15 allege that the unsuccessful party should not have brought the case (or defended against
16 it). If mere negligence were a sufficient basis for awarding fees, then the denouement of
17 every patent case would be a battle over the unsuccessful party’s “diligence” in deciding
18 to pursue its litigation position. Every case could devolve into a second litigation over
19 its “exceptional” nature, a result at odds with congressional intent. The court reiterates
20 that, to date, Audible has adduced no evidence suggesting Digeo’s negligence, much less
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23 ⁴It is not clear whether a court can deem a case exceptional based on the patentee’s mere
24 negligence in failing to discover that his suit was baseless before bringing it. Compare Forest
25 Labs., 339 F.3d at 1330 (“[T]he pertinent inquiry is . . . whether [the plaintiff] knew or should

26 have known that [it could not prevail], but pursued its infringement [claim] anyway.”), with
27 Eltech Sys., 903 F.2d at 810 (discussing “simple negligence” and “studied ignorance” as bases
28 for deeming a case exceptional). The court declines to decide whether negligence suffices to
deem a case exceptional. Instead, the court assumes that it could deem this case exceptional,
and proceeds to the second step of the § 285 analysis, in which the court decides whether to
exercise its discretion to award fees.


1 a higher degree of culpability. The court's inquiry, then, is whether Audible's
2 unsubstantiated speculation that further discovery would reveal evidence of Digeo's
3 culpable conduct is sufficient to warrant the expenditure of resources that discovery
4 would place on the parties and the court. In this case, the court finds that the answer is
5 no.

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7 The court is mindful that Audible has expended substantial resources in
8 defending itself in this litigation, and respects its desire to be made whole. The evidence
9 before the court suggests, however, that the culprit responsible for the waste of the
10 resources of the parties and the court is not Digeo, but the party who perpetrated a fraud
11 on the public by using forged documents to create the illusion of sole ownership of the
12 '823 Patent. The court's resolution of this action will not make Audible whole, nor will
13 it make Digeo whole. Allowing additional discovery would serve only to make Audible
14 and Digeo less whole.

15 IV. CONCLUSION

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17 For the reasons stated above, the court GRANTS Digeo's motion for voluntary
18 dismissal (Dkt. # 85), DENIES the Changs' motion to intervene (Dkt. # 87) and
19 dismisses this action with prejudice. The court finds that this case is not "exceptional"
20 under 35 U.S.C. § 285. The clerk shall enter judgment, and the judgment shall reflect
21 the conditions imposed in this order.

22 Dated this 1st day of December, 2006.

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26 JAMES L. ROBART
27 United States District Judge
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